The Game is Still Going…
The Longest 7th Inning Ever

Presenter: Doug Wulf
Monday, December 7, 2015
### Where Are We in the Cycle?

#### Recession-Recovery Table

<table>
<thead>
<tr>
<th>Recession</th>
<th>Recovery/Expansion Period</th>
<th>Length of Expansion Following Recession</th>
<th>GDP Growth During Expansion</th>
<th>Monthly Job Growth During Expansion (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>Q1 1950 – Q1 1953</td>
<td>13 qtrs</td>
<td>7.4%</td>
<td>182</td>
</tr>
<tr>
<td>1953</td>
<td>Q3 1954 – Q2 1957</td>
<td>12 qtrs</td>
<td>4.1%</td>
<td>115</td>
</tr>
<tr>
<td>1957</td>
<td>Q3 1958 – Q1 1960</td>
<td>7 qtrs</td>
<td>6.7%</td>
<td>165</td>
</tr>
<tr>
<td>1960</td>
<td>Q2 1961 – Q3 1969</td>
<td>34 qtrs</td>
<td>5.1%</td>
<td>169</td>
</tr>
<tr>
<td>1969</td>
<td>Q1 1971 – Q3 1973</td>
<td>11 qtrs</td>
<td>5.3%</td>
<td>198</td>
</tr>
<tr>
<td>1973</td>
<td>Q2 1975 – Q4 1979</td>
<td>19 qtrs</td>
<td>3.5%</td>
<td>239</td>
</tr>
<tr>
<td>1980</td>
<td>Q4 1980 – Q2 1981</td>
<td>3 qtrs</td>
<td>4.4%</td>
<td>145</td>
</tr>
<tr>
<td>1981</td>
<td>Q1 1983 – Q2 1990</td>
<td>30 qtrs</td>
<td>4.4%</td>
<td>233</td>
</tr>
<tr>
<td>1990</td>
<td>Q2 1991 – Q4 2000</td>
<td>39 qtrs</td>
<td>3.8%</td>
<td>203</td>
</tr>
<tr>
<td>2001</td>
<td>Q4 2001 – Q4 2007</td>
<td>25 qtrs</td>
<td>2.7%</td>
<td>83</td>
</tr>
<tr>
<td>2007</td>
<td>Q3 2009 – current</td>
<td>24 qtrs+</td>
<td>2.2%</td>
<td>130</td>
</tr>
<tr>
<td><strong>Average (48-01)</strong></td>
<td></td>
<td><strong>19.7 qtrs</strong></td>
<td><strong>4.8%</strong></td>
<td><strong>169.3</strong></td>
</tr>
</tbody>
</table>

Source: National Bureau of Economic Research

*History is not on our side*
Investors Are Drawn to the U.S. Fundamentals

Office Rent Growth: U.S. Markets vs. Other Cities Around the World

Source: Cushman & Wakefield Research
U.S. Fundamentals Remain STRONG

HH Balance Sheets Fantastic

Soaring Corporate Profits

Solid Bank Balance Sheets

Source: Federal Reserve, Census Bureau, Cushman & Wakefield Research
Rent Growth: Who’s Hot

Office Asking Rents: 2015 Q3 over 2014 Q3, % Change

Source: Cushman & Wakefield Research
Denver’s Office Sector Outlook

Job Growth Forecast

Total Nonfarm

Absorption Forecast

Source: Cushman & Wakefield Research

28% Office-using
Denver’s Stunning Growth Trajectory

Total Nonfarm Employment

Source: BLS
Population and Office Supply

![Graph showing the relationship between population and MSF of office development over years from 1980 to 2016. The graph displays a steady increase in both population and MSF of office development over time.]
Office Building Deliveries

Single Tenant and Multi Tenant

MSF of Office Development

- 1980-1990
- 1991-2000
- 2001-2016

CU Real Estate Forum / December 7, 2015
Supply Trends: Office Sector

Denver Metro: Deliveries

Source: CoStar, Cushman & Wakefield Research

15 Year Historical Average = 2.2M
Office Vacancy Remains Tight

Denver Metro Vacancy

Historical Average = 13.2%

Source: CoStar, Cushman & Wakefield Research
Denver’s Office Sector Trends

Demand (Net Absorption)

Source: Cushman & Wakefield Research
Denver Office Rent Trends

Rent Growth, Yr./Yr.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>Q3 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A</td>
<td>5.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Class B</td>
<td>5.0%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Source: Cushman & Wakefield Research
Historical and Projected Rent and Vacancy Trends

Southeast Denver vs. Downtown Denver

<table>
<thead>
<tr>
<th>Year</th>
<th>SES Denver Vacancy</th>
<th>Denver CBD Vacancy</th>
<th>SES Denver Avg Rate</th>
<th>Denver CBD Avg Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2001</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2002</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>2003</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2004</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>2005</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2006</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2007</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>2008</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>2009</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2010</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>2011</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2012</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2013</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2014</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2015</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2016</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
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<tr>
<td>2017</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>2018</td>
<td>5.00%</td>
<td>15.00%</td>
<td>$10.00</td>
<td>$10.00</td>
</tr>
</tbody>
</table>
The Rent Gap

- Upper CBD & Existing Buildings
- New Construction CBD & Lower CBD
- Suburban A Buildings
- Suburban TOD A Buildings

$/SF

$0
$10
$20
$30
$40
$50
$60
Large Blocks of Space – They Are Old

Metro Denver 100,000 SF and Larger

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>24</td>
</tr>
<tr>
<td>Southeast</td>
<td>7</td>
</tr>
<tr>
<td>CBD</td>
<td>3</td>
</tr>
<tr>
<td>30 Years+ Old</td>
<td>12</td>
</tr>
<tr>
<td>Under Construction</td>
<td>9</td>
</tr>
<tr>
<td>Over 200K</td>
<td>7</td>
</tr>
</tbody>
</table>
Construction Costs Forecast

Yr./Yr. Percent Change.

Source: ENR, Cushman & Wakefield Research
Southeast Denver vs. Downtown Denver

Projected Construction Costs
Denver is NOT Houston

Percent of Gross Metro Product

Denver

- Only 6% of economy links to energy
- 96% of jobs created in Denver are in non-energy
- 20% of CBD leased to energy tenants
- Only 2.3 msf of office u/c

Houston

- 17% of economy links to energy
- 51% of CBD leased to energy tenants
- 17 msf of office u/c

Mild Headwinds

Major Headwinds

Source: BEA, Cushman & Wakefield Research
Oil and Gas Occupancy

Downtown Denver

- **28.2 msf**
- **25.1 msf occupied (11% overall vacancy)**

Source: Cushman & Wakefield Research
Oil and Gas Sublease Space

- **Jan. 2015**: 9 Subleases
- **Dec. 2015**: 38 Subleases
- **1.2 Million RSF Vacant**: Sublease Space Plus "Shadow Space"
- **3,000 Jobs**
Where Will the Market Still be Hot?

- RiNo
- LoDo and Platte Valley
- Cherry Creek North
- SoBo to Gates
- Southeast TOD
Conclusions

- Vibrant, TOD/Amenity rich sites will capture the majority of office tenant demand and absorption going forward
- The emerging “rent gap” will widen
- Projected speculative office construction deliveries of 1-2 million SF per year during 2015-2018 for Metro Denver will NOT exceed tenant demand
- Limited well located sites and increasing land/construction costs will further limit new supply
- Energy is the wild card and 2016 will be the swing year one way or the other
- The game is not over, it will just be a little less exciting
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